

March 17, 2022

Ganesha Ecopet Private Limited: Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. Crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-----------------------------------|----------------------------------|-------------------------------|
| Long term – Fund based/Term Loan | 280.00 | 280.00 | [ICRA]A- (Stable); reaffirmed |
| Total | 280.00 | 280.00 | |

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the comfortable progress on the greenfield project that Ganesha Ecopet Private Limited (GEPL) has undertaken and a healthy recovery in its parent's (Ganesha Ecosphere Limited or GEL)¹ performance in the current fiscal, despite a fire incident in Q1 FY2022, which affected ~10% of its installed capacity. While the capex, being undertaken under GEPL, exposes it to the associated project execution and operational risks, it is likely to bolster the Group's (GEL, along with its subsidiaries, GEPL and Ganesha Ecotech Private Limited or GETPL²) operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. The financing risk for the project is also mitigated to a large extent as the debt requirement has been sanctioned, and GEL's internal accruals/liquid balances are likely to be adequate to fund the equity margin requirements for the project. Despite a transitory increase in the consolidated financial leverage for GEL because of the ongoing capex, ICRA expects GEL's consolidated coverage metrics to remain comfortable, supported by the provision of adequate moratorium and ballooning repayment structure on the term debt being availed under the subsidiaries.

The rating also continues to draw strength from GEPL's strong parentage, with GEL having a strong operational and a comfortable financial risk profile. GEPL is expected to receive significant operational, financial and management support from GEL. GEPL is likely to benefit from the operational synergies as GEL has been operating in the industry for over two decades, has a large scale of operations, which provide benefits of economies of scale, along with a demonstrated track record of getting repeat business from a diversified clientele and uninterrupted access to raw materials from an established supplier network. This is more so considering its leading market position as the largest manufacturer of recycled polyester staple fibre (RPSF) in the country, which is likely to be strengthened with the greenfield expansion under GEPL and GETPL. This, together with the shared brand name, reflects on GEPL's strategic significance to its parent. While assigning the rating, ICRA has also noted that GEPL's bank facilities are backed by a corporate guarantee from GEL, which enjoys strong financial flexibility, indicating the extent of financial support available from the parent during the project implementation as well as operational phase.

The Stable outlook on the rating reflects ICRA's expectation of continued operational and financial support from the parent. Further, the Group's track record of setting up large projects is expected to enable the company to implement the project within the estimated costs and timelines, as well as efficiently ramp up operations, to remain self-sufficient in meeting its debt servicing obligations, post commissioning of operations.

¹ ICRA has [ICRA]A (Stable)/[ICRA]A1 ratings outstanding for the bank facilities of Ganesha Ecosphere Limited. Please refer to ICRA's website – www.icra.in for details

² GETPL – Ganesha Ecotech Private Limited, a wholly owned subsidiary of Ganesha Ecosphere Ltd and a fellow subsidiary of GEPL, was incorporated in November 2020. The project which was earlier being undertaken under GEPL has now been split into GEPL and GETPL. The project being set up under GETPL involves setting up of 35,000-Tons per annum (TPA) of capacity for washed PET flakes and 10,500-TPA capacity for Polypropylene Staple Fibres (PPSF). ICRA evaluates the project under GEPL and GETPL on a combined basis.

Key rating drivers and their description

Credit strengths

Strong parentage; parent entity having a leading market position among Indian RPSF manufacturers – The rating derives comfort from the strong operational and financial risk profiles of GEPL’s parent entity, its established track record of over two decades and leading market position in the domestic RPSF sector. GEL is the largest manufacturer of RPSF in the country (installed capacity of ~108,600 MTPA). Supported by its large scale of operations, which results in economies of scale and augments bargaining power with suppliers, the company has demonstrated healthy and range-bound profitability over the years. GEL’s financial risk profile is characterised by comfortable leverage and coverage indicators and an adequate liquidity position. Despite the absence of a track record for GEPL, with the entity being at project/ inception stage, the rating draws support from the strong operational and financial inter-linkages of GEPL with its parent entity, its common management, as well as high strategic importance of the project for the Group.

Moderate funding risks and favourable terms of debt tied up – GEL is setting up a ~Rs. 453-crore greenfield project in the Kakatiya Textile Park, Warangal (Telangana) under its two wholly owned subsidiaries namely GEPL and GETPL. The project is to be funded by Rs. 325-crore bank debt and the balance by investment from the parent entity in the form of equity, preference capital and compulsorily convertible debentures. Financial closure for the project has already been achieved. Further, equity funding risks are low considering the adequate liquidity and healthy financial flexibility of GEL. This apart, the ballooning repayment structure and provision for adequate moratorium for the debt being availed are expected to keep GEL’s consolidated debt coverage indicators comfortable in the medium term.

Eligibility for fiscal incentives to lower effective cost of debt – Apart from the long repayment tenure and step-up repayment schedule, the projects under GEPL and GETL will be eligible for fiscal incentives in the form of interest subsidy to the extent of ~75%, which will lower the effective cost of debt, and in turn support its debt coverage metrics.

Credit challenges

Exposure to project related risks – The project is exposed to implementation and/or execution risks, including risks related to costs/ time overruns. In this context, some comfort is drawn from the comfortable progress on the project so far. The funding risks have also been addressed to a large extent as the debt for the project has been fully tied up, and GEL’s liquid investments/ cash accruals are expected to be adequate to fund the equity margin requirements. Besides, the financial flexibility enjoyed by the parent entity is expected to support the contingency funding requirements if any. The rating further draws comfort from the extensive experience and track record of the promoter group, of timely and successfully implementing large size projects in the past. The project also remains exposed to operational risks, as the company’s ability to profitably ramp up operations after launch remains to be seen. Nevertheless, GEL’s existing track record in the industry and its established supplier network and customer base, are likely to partially mitigate risks related to raw material procurement and marketing risks, respectively, for GEPL. The marketing risks are also partially addressed by the favourable prospects of recycled materials, particularly in the international/ export markets, owing to increasing focus on reducing plastic waste and increasing commitments of large brands towards usage of recycled materials in the various end-product segments.

Susceptibility of profitability to raw material procurement cost and volatility in realisations – GEPL’s product profile comprises recycled polyester staple fibre (RPSF), partially oriented yarn (POY) and recycled PET resin, which are manufactured from PET bottle waste. While RPSF realisations are driven by movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), its profitability will remain susceptible to volatility in VPSF prices, particularly in a declining price scenario. On the other hand, the raw material for RPSF is PET waste, which has its own demand supply dynamics. Thus, the profitability will remain vulnerable to GEPL’s ability to manage the raw material costs as well as the spread between the realisations and raw material costs.

Raw material procurement and pricing risk – As the main raw material for GEPL will be PET bottle waste, its ability to successfully commission the greenfield project, while ensuring regular availability of PET waste at competitive prices will be

critical for sustenance of its operations, and achieve its targeted profitability. Given the increasing RPSF capacities in the country as well as the Group’s own manufacturing capacities, the company is exposed to increasing raw material procurement and pricing risks. The risk is heightened considering the regulatory developments in the recent years involving the imposition of ban on import of PET waste, PET flakes, etc, which affected domestic PET waste availability. Nevertheless, the Group’s large-scale of operations allowing bulk procurements, as well as its organised and extensive sourcing network, partially mitigate the risk.

Liquidity position: Adequate

GEPL’s liquidity profile is adequate, supported by the strong liquidity of its parent entity, GEL. The liquidity position of GEL is expected to be adequate in the near term as the debt component for the project has been fully tied up and GEL is comfortably placed to fund the equity portion. Thereafter, the liquidity profile will be driven by timely commissioning of the project and the company’s ability to successfully ramp up operations and tie up the requisite working capital facilities.

Rating sensitivities

Positive factors – Successful implementation of the project, timely commissioning and healthy ramp-up of operations thereafter, which result in a sustained improvement in the company’s financial risk profile, will be positive triggers for the rating.

Negative factors – Pressure on GEPL’s rating could arise if a delay in project implementation or a weak ramp-up affects the company’s return and coverage metrics. Further, weakening in ownership, managerial and financial linkages with GEL or weakening of the credit profile of the parent entity would be negative triggers for GEPL’s rating.

Analytical approach

| Analytical Approach | Comments |
|--|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Approach – Implicit parent or group support |
| Parent/Group Support | Parent/Group Company: Ganesha Ecosphere Limited ICRA expects GEPL’s parent, GEL [rated [ICRA]A (Stable)/[ICRA]A1], to be willing to extend financial support to GEPL, should there be a need, given the high strategic importance of GEPL for the parent for meeting its diversification objectives. Both GEL and GEPL share a common name, which in ICRA’s opinion would persuade GEL to provide financial support to GEPL to protect its reputation from the consequences of a Group entity’s distress. |
| Consolidation/Standalone | The rating is based on the standalone business and financial risk profiles of GEPL, factoring in the support from GEL as mentioned above. |

About the entity

Incorporated in November 2019, GEPL is a wholly-owned subsidiary of Ganesha Ecosphere Limited (GEL). It is setting up a greenfield project for manufacturing recycled polyester staple fibre (RPSF, with an installed capacity of 25,200 MTPA), recycled partially / fully drawn yarn (POY/FDY with an installed capacity of 3,000 MTPA) and recycled PET resin (with an installed capacity of 28,927 MTPA), from PET scrap bottles. The project is being set up at Kakatiya Mega Textile Park, Warangal (Telangana).

GEL primarily manufactures recycled polyester staple fibre and spun yarn. The company is listed on the Bombay Stock Exchange (BSE) as well as on the National Stock Exchange (NSE). As on December 31, 2021, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturised yarn in Kanpur, 1,08,600 MTPA of RPSF in Kanpur, Bilaspur (Uttar Pradesh) and Rudrapur (Uttarakhand), and 7,200 MTPA of spun yarn (25,920 spindles) in Bilaspur. At present, GEL has the largest capacity for manufacturing RPSF in the domestic market.

Key financial indicators

| GEL's Consolidated Financials | FY2020 | FY2021 |
|--|--------|--------|
| Operating Income (Rs. crore) | 888.83 | 751.14 |
| PAT (Rs. crore) | 63.88 | 45.19 |
| OPBDIT/OI (%) | 12.67% | 11.28% |
| PAT/OI (%) | 7.19% | 6.02% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.39 | 0.44 |
| Total Debt/OPBDIT (times) | 0.82 | 1.50 |
| Interest Coverage (times) | 14.48 | 9.73 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current Rating (FY2022) | | | Chronology of Rating History for the past 3 years | | |
|-------------|-----------|--------------------------|--|-------------------|---|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding as on December 31, 2021 (Rs. crore) | Date & Rating | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | | | |
| 1 Term Loan | Long Term | 280.00 | 88.00 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|----------------------------------|----------------------|
| Long Term - Fund Based/Term Loan | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-------------------------------------|--------------------------------|----------------|------------------|--------------------------------|-------------------------------|
| NA | Long term – Fund based/Term Loan | March 2021 | - | June 2032 | 280.00 | [ICRA]A- (Stable) |

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Kaushik Das

+91 983 6198 660

kaushikd@icraindia.com

Nidhi Marwaha

+91 124 4545 337

nidhim@icraindia.com

Preeti Rana

+91 999 6245 275

preeti.rana@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.